

Internal Revenue Service

Department of the Treasury

District
Director

Person to Contact:

Telephone Number:

Date: MAY 15 1990

Dear Applicant:

We have considered your application for recognition of exemption from Federal income tax as an organization described in section 501(c)(4) of the Internal Revenue Code. For the reasons stated below, we concluded that you do not qualify for exemption under this section.

You were formed as an association of homeowners on [REDACTED], in the State of [REDACTED]. The purpose of the entity, as stated in your constitution are as follows:

1. To unite the homeowners of [REDACTED], located in [REDACTED], for their mutual benefit and protection as property owners.
2. To promote the improvement and maintenance of streets, drainage and any or all other things that might become necessary and proper for the upkeep of [REDACTED].
3. To maintain and improve through civic activities of the community and its members, the natural beauty of the area.
4. To promote the development of homes similar to those now existing in the community.

Membership in your organization is restricted to property owners in the [REDACTED].

[REDACTED]

In your exemption application, and documents and correspondence submitted during the application process, you indicate that your activities have included or will include: maintenance of the entry-way at [REDACTED]; maintenance of the boulevards throughout the subdivision; sponsorship of an annual picnic for the subdivision; sponsorship of an annual Christmas lighting contest; issuing a newsletter to the residents of the subdivision; promotion of improvement and maintenance of streets, storm sewers, etc., necessary for the upkeep of the subdivision; notifying absentee owners of problems with their property; and promotion of pride of the neighborhood through beautification and neighborhood watches.

[REDACTED] consists of [REDACTED] building lots, of which [REDACTED] were occupied by homes at the time application for exemption was made. There are four entrances into the subdivision. The organization does not maintain any recreational facilities for the residents or the general public. It is represented, that there are no businesses, churches or schools in the subdivision.

The organization's sole source of support is from the membership dues received. Funds are used primarily for printing and supplies, Christmas trophies, utilities and picnics; and may also be used for legal fees.

Section 501(c)(4) of the Internal Revenue Code holds that civic leagues and organizations not organized for profit but operated exclusively for the promotion of social welfare are exempt from tax.

Section 1.501(c)(4)-1(a)(2)(i) of the Income Tax Regulations holds that an organization is a "social welfare" organization if it promotes the common good and general welfare of the people of a community.

Revenue Ruling 72-102, 1972-1 C.B. 149, describes a homeowners association ruled to be exempt under Code section 501(c)(4).

Revenue Ruling 74-99, 1974-1 C.B. 131, which clarifies Revenue Ruling 72-102, provides that for a homeowners association to qualify for exemption under Code section 501(c)(4), it must, among other criteria: (1) serve a community bearing a reasonably recognizable relationship to an area ordinarily identified as a governmental subdivision or unit thereof; and (2) make common areas and facilities available for the use and enjoyment of the general public (persons other than members and their guests.)

[REDACTED]

Revenue Ruling 80-62, 1980-1 C.B. 116, restates the conclusions of Revenue Ruling 74-99, and further indicates that a homeowners association that represents an area that is not a community may not qualify for exemption where the benefits provided by the organization's activities are restricted to members.

Based on the information provided during your application, we conclude that the development represented by your organization is not a "community" within the meaning of section 1.501(c)(4)-1(a)(2)(i) of the Income Tax Regulations, in that [REDACTED] does not bear a reasonably recognizable relationship to a governmental subdivision or a unit thereof. While access to your subdivision is not physically barred to nonresidents, the fact that the subdivision does not contain any public parklands, recreational facilities, or similar inducements for public use of the streets, is evidence that the public benefit provided by your organization is insubstantial compared with the private benefit afforded to your members.

Accordingly, based on all the facts and circumstances, we conclude that you do not qualify for recognition of exemption from Federal income tax under section 501(c)(4) or any other section under 501(c) of the Internal Revenue Code.

You are, therefore, required to file Form 1120 for fiscal years ending [REDACTED], [REDACTED] and subsequent years.

You have the right to protest this ruling if you believe it is incorrect. To protest, you should submit a statement of your views, with an explanation of your reasoning. This statement, signed by one of your officers, must be submitted in duplicate within 30 days from the date of this letter. You also have the right to a conference in this office after your statement is submitted. You must request the conference, if you want one, when you file your protest statement. If you are to be represented by someone who is not one of your officers, that person will need to file a proper power of attorney and otherwise qualify under our Conference and Practices Requirements. Please see the enclosed Publication 892 for details.

If you do not appeal this determination within 30 days from the date of this letter, as explained in Publication 892, this letter will become our final determination on this matter.

[REDACTED]

If you have any questions, please contact the person whose name and telephone number are shown above.

Sincerely,

[REDACTED]
District Director

Enclosure: Publication 892